



2020 Half year Results

Paul Smith – CEO
Andrew Hayward – CFO

Highlights

Strategic Roadmap

Principles



Prudent financial stewardship

Focus on responsible lending



Open and transparent relationship with regulator

Fully FCA regulated



Customer centric

High customer satisfaction survey scores



Strong returns to shareholders

Progressive dividend policy

H1 20 Progress

CURO Transatlantic (Feb 2019) and U Holdings (June 2019) acquisitions

Portal reaching 30,000 users

Evolving executive team and Board

Continued digitalisation of services to suit customer needs

Technology developments to support affordability assessments

H2 20 and beyond

Continue to use technology to enhance and evolve customer experience

Continuing digital leadership

Customer journey - augment HCC with other credit and banking-style products

Restructuring acquisitions to bring in line with Morses Club DNA

Expanding product offering

Dot Dot achieving financial targets

U Holdings – develop customer journey to integrate credit products

Financial Highlights

Group

ADJUSTED PBT

↓ 8.6%

STATUTORY PBT

↓ 33%

CUSTOMER NUMBERS

↑ 276,000

NET LOAN BOOK

↑ 6.2%

HCC

ADJUSTED PBT

↑ 20.2%

STATUTORY PBT

↑ 12.5%

CUSTOMER NUMBERS

↓ 224,000

NET LOAN BOOK

↑ 0.4%

Digital

ADJUSTED PBT

n/a

STATUTORY PBT

n/a

CUSTOMER NUMBERS

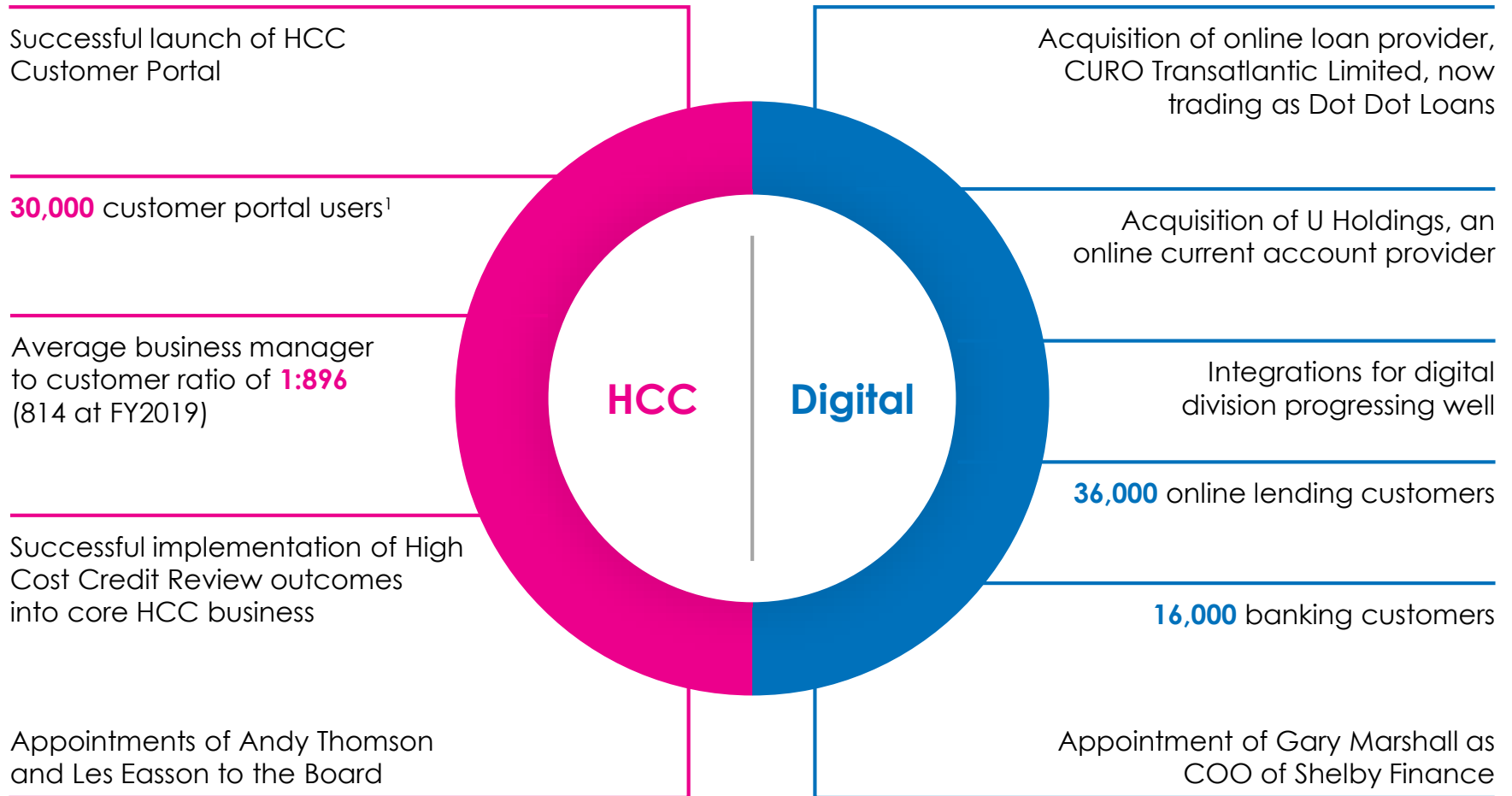
↑ 52,000

NET LOAN BOOK

n/a

Interim Dividend of 2.6p per share

Group Operational Highlights



(1) As at 31 August 2019, per Company information

The Non-Standard Credit Market

Share of outstanding personal debt of home credit borrowers



HCC

- HCC market totals **£1.1bn** with **1.6m** users³
- HCC market stable for the last 4/5 years
- HCC totals **16%** of non-prime new lending in 2018²
- For HCC customers, 27% of personal debt is HCC; a further 21% in credit card, overdraft and HCSTC, and 11% in unsecured personal loans⁴

Non-Standard Credit Market

- Circa **2m** people move between standard and non-standard markets due to credit scores²
- **3 million** consumers use high cost credit (excluding overdrafts) including rent-to-own, catalogue credit, store cards and HCC²
- Overall growth of **15%** in the non-prime consumer credit market from 2016 to 2018²

(1) Provident Financial Plc Annual Report and Financial Statements 2017

(2) Apex Insight – Non-Prime Consumer Credit: UK Market Insights Report – September 2019

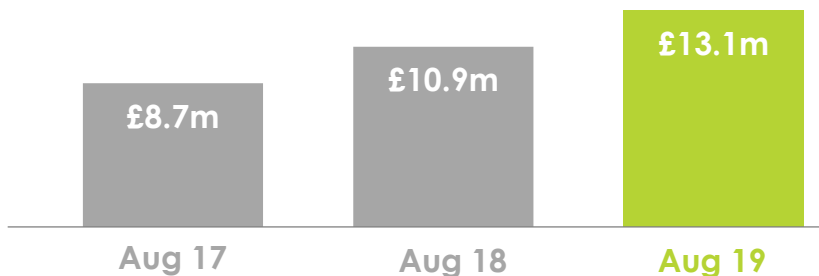
(3) FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt – July 2017

(4) FS17/2: High-cost credit and review of the high-cost short-term credit price cap

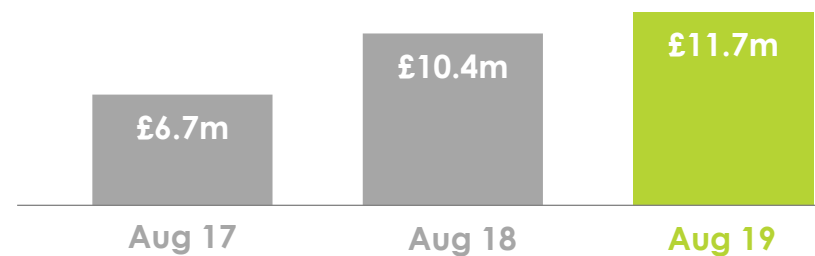
Financial Review

HCC Division

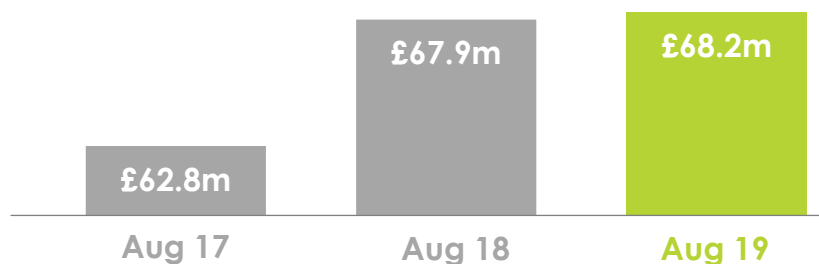
Adjusted PBT



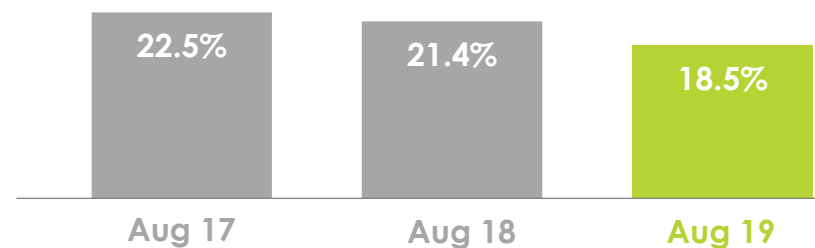
Statutory PBT



Loan Book Growth



Impairment

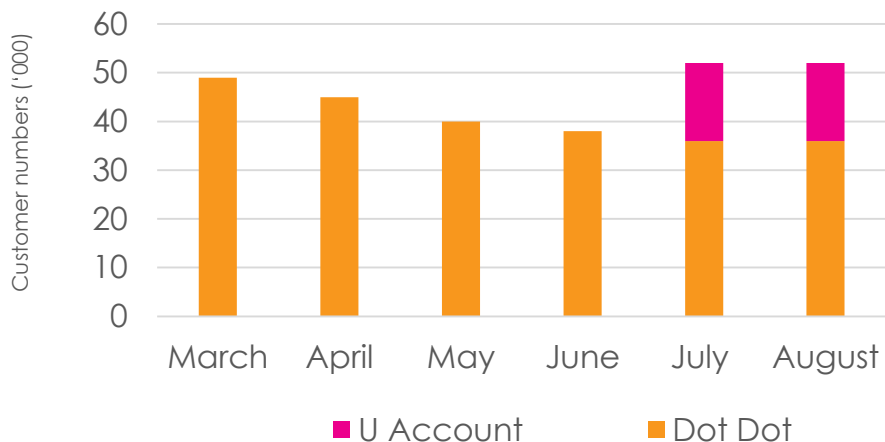


Commentary

- Strong performance and delivery of over 20% YOY growth
- Successfully embedded regulatory changes following High Cost Credit Review in December 18
- Continued technological developments to streamline customer experience

Digital Division

Shelby Finance customer numbers



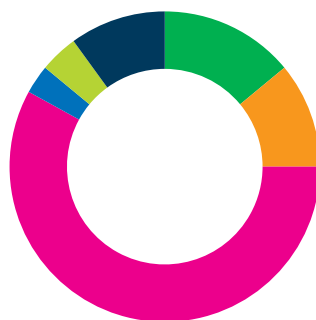
Commentary

- First phase of integration
- Realigned product range in line with strategy (3 to 12 months)
- Re-engineering of customer journey to maximise product set
- Dot Dot to be earnings accretive by FY21

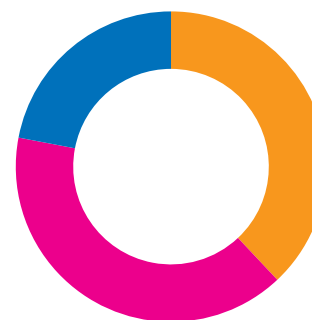
Shelby Product Mix



Product mix at acquisition

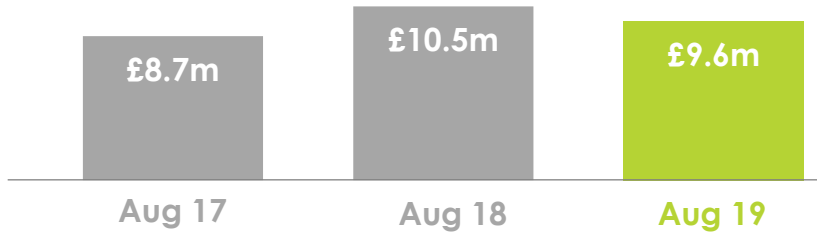


Current product mix

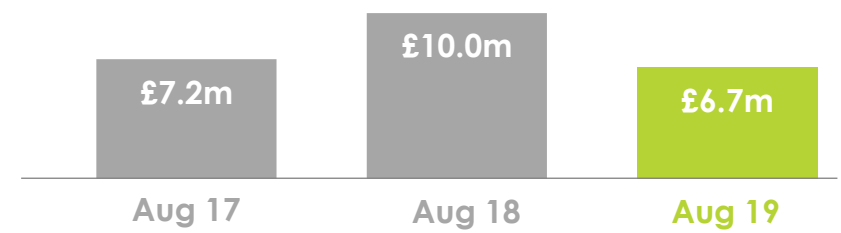


Group Results

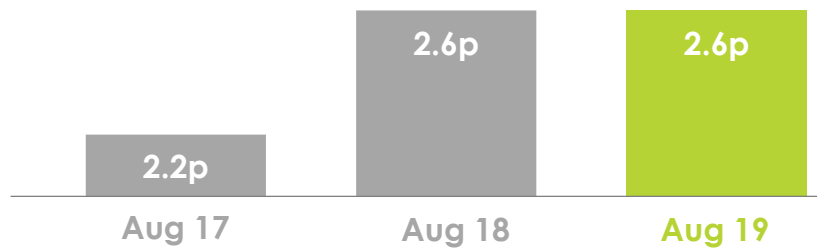
Adjusted PBT



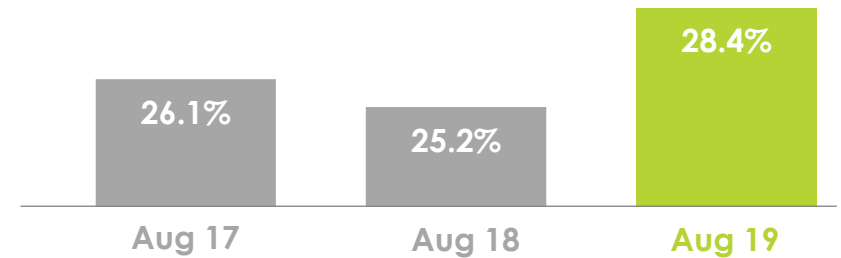
Statutory PBT



Dividend



Return on Equity

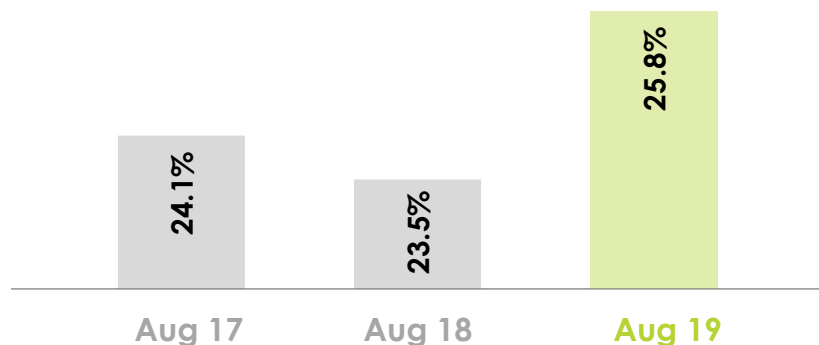


Commentary

- Significant period of transformational change across the Group due to Digital acquisitions
- Dividend maintained at 2.6p
- Strong Impairment performance of 19% of revenue across the Group

Loan Book Performance (HCC)

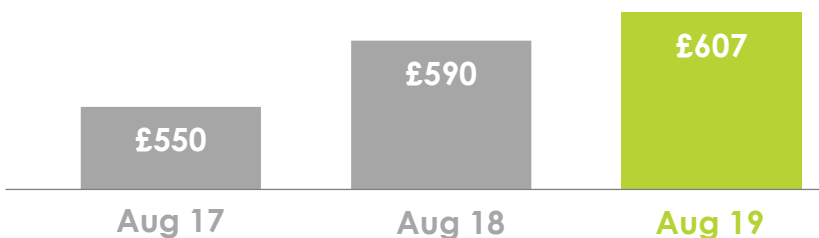
Return on assets (HCC)



Risk adjusted margin (RAM)

	Aug-18	Aug-19
HCC	125.6%	134.9%
Digital		84.6%

Average customer balances have grown



Commentary

- Strong HCC loan book performance from controlled increase in loan balances
- Greater understanding of customer income and expenditure leading to enhanced affordability assessments
- Continued focus on high quality lending

Income Statement

£'000	Aug-19			Aug -18
	HCC	Digital	Group	Group
Customer Numbers	224	52	276	230
Period End receivables	68.3	3.9	72.2	68.0
Average Receivables	69.2	7.1	76.3	70.4
Revenue	59.4	6.9	66.3	57.5
Impairment	(10.9)	(1.7)	(12.6)	(12.6)
Agent commission	(14.1)	(0.3)	(14.4)	(12.8)
Territory Build subsidies	(0.3)	0.0	(0.3)	(1.3)
Gross profit	34.1	4.9	39.0	30.8
Admin Expenses	(19.9)	(8.0)	(27.9)	(19.5)
Adjusted Operating profit	14.2	(3.1)	11.1	11.3
Financing Costs	(1.1)	(0.4)	(1.5)	(0.8)
Adjusted PBT	13.1	(3.5)	9.6	10.5
Tax	(2.5)	0.7	(1.8)	(2.0)
Adjusted PAT	10.6	(2.8)	7.8	8.5

Commentary

HCC

- Excellent Impairment result driven from better quality lending
- Successful £1m YOY reduction in Territory Build subsidies
- Continued focus on cost efficiencies with 10% improvement in customer to manager ratios

Digital

- Successful collect-out of acquired loan book
- Focus on simplified product range
- Significant restructuring of cost base

(1) The reconciliation between reported profits and adjusted profits can be found on Page 22.

(2) Normalised tax rate of 19% applied to adjusted PBT to reach adjusted PAT.

Source: Company information, Company accounts.

Balance Sheet

£'000	Aug-17	Aug-18	Aug-19
Non Current Assets			
Goodwill & Intangibles	6.2	4.4	13.3
PPE*	3.4	4.2	11.7
Current Assets			
Trade receivables	62.8	68.0	72.3
Cash and Cash Equivalents	7.1	5.8	7.5
Other Current Assets	2.7	3.3	4.1
	72.6	77.1	83.9
Total Assets	82.2	85.7	108.9
Current Liabilities			
Trade & Other Liabilities**	(6.2)	(7.9)	(15.6)
Loan Facility	(17.0)	(12.0)	(23.0)
Total Liabilities	(23.2)	(19.9)	(38.6)
Net Assets	59.0	65.8	70.3
Net Tangible Assets	52.8	61.4	57.0

* Includes Right of use asset of £3.6m under IFRS 16

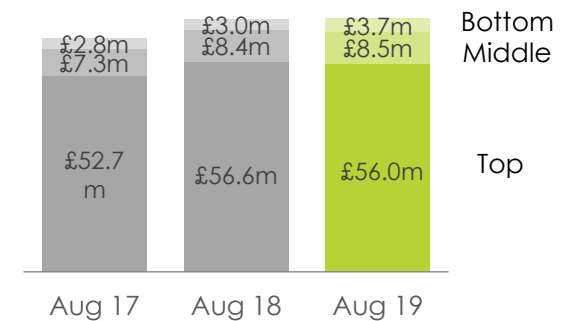
** Corresponding £3.6m IFRS 16 liability

Note – 27-week period to 31 August 2019. The prior year comparison was a 26-week period

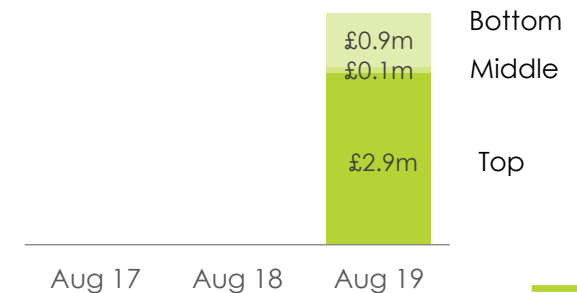
Commentary

- YOY increases in non-current assets due to acquisition activity

IRFS 9 - HCC



IRFS 9 – Digital



Cash from Operations excluding investment in loan book

£'000	Aug-17	Aug-18	Aug-19
Cash from funding	7.0	(4.0)	8.5
Cash from Operations ex Loan Book	11.0	12.2	15.8
Total Cash Sources	18.0	8.2	24.3
Increase in Net Loan Book	(6.0)	1.4	1.7
Acquisitions	0.0	0.0	(14.0)
CapEX	(0.6)	(0.8)	(2.4)
Corp Tax	(2.2)	(1.1)	(1.8)
Interest	(0.5)	(0.6)	(1.5)
Dividend	(5.6)	(6.2)	(6.7)
Total Cash Used	(14.9)	(7.3)	(24.7)
Cash Movement	3.1	0.9	(0.4)

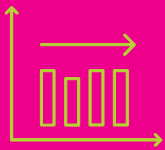
Commentary

- Interim Dividend recommendation of 2.6p (FY19 2.6p)
- Cash generated from Operations increased YOY by 29.5%, despite additional CAPEX to support technology strategy

Strategy Update

Customer journey – expanding our product offering

Our vision is to continue to grow as an established provider of non-standard finance in the UK



A stable HCC market provides a platform for Morses Club to embrace change:

- Reduced territory build subsidies following a normalised level of agent movements
- Opportunity to drive a leaner organisation and reduce operational costs
- Chance to broaden customer base through expanded digital offering
- Tailored and flexible product offering to customers' needs whilst engendering loyalty



We are focused on using our customer insights to offer customers the most appropriate form of credit to suit their needs, whilst retaining our outstanding customer service



The HCC market is linked to other segments of the non-standard credit market

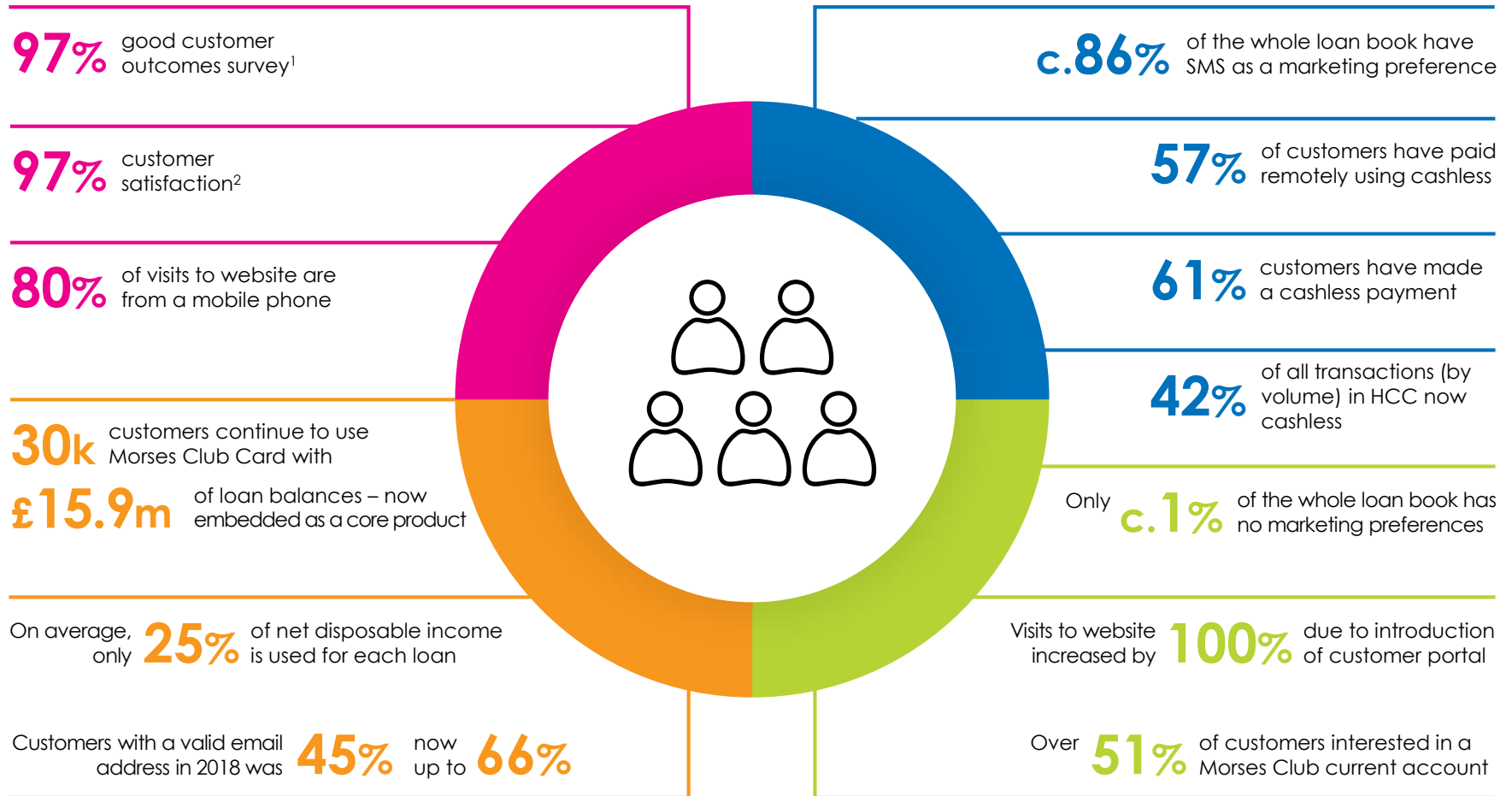
- Among typical HCC customers, 27% of personal debt balances are HCC, with a further 21% in credit card, overdraft and HCSTC, and 11% in unsecured personal loans¹
- Some customers progress from HCC to other forms of credit as their credit footprint improves



We aim to retain customers who have experience of Morses Club's HCC product, but are looking elsewhere for alternative forms of credit, through our complementary offering

(1) FS17/2: High-cost credit and review of the high-cost short-term credit price cap

Customer insights – what we know about our customers



(1) Independent Customer Outcomes Survey conducted by Mustard
 (2) Independent Customer Satisfaction Survey conducted by Mustard

Initiatives and product development

Key initiatives have been introduced to enhance the customer experience and enable our customers to access alternative forms of credit

Enables HCC customers to pay online, request credit and access other offers

Over 30,000 customer registrations since launch in H1 20

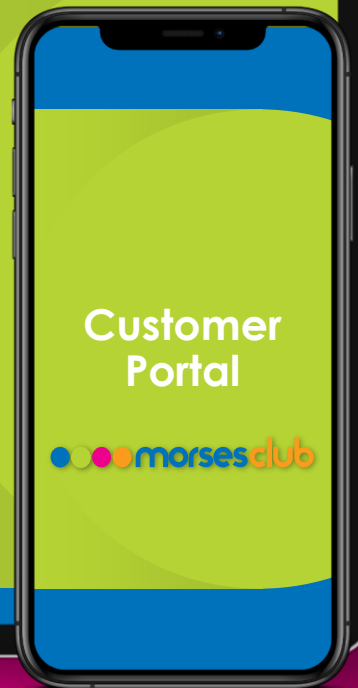
Over 40,000 users at October 2019

68% of users have requested credit through the portal

Over 81% of customers satisfied with the portal

Over 81% of customers would be happy to recommend it to friends or family

Marketing campaigns have doubled in success due to customer engagement in the portal



Reviewing end-to-end customer journey across the digital division

Developing an app-based customer journey

Developing the U Account brand to reflect the requirements of a broader customer base

Developments to the loan processing journey for HCC, including affordability assessments now using ONS data

Digital developments

Integrating our acquisitions

These acquisitions form part of our strategy to develop a wider range of products to address demand in the non-standard financial sector

Dot Dot Loans

Dot Dot provides 3 to 12 month online instalment loans

- Plans to offer long-term lending
- 36,000 active customers – reshaping customer base with a focus on quality
- Rehousing of a new purpose-built contact centre to support online lending business
- Integration and further development of decision engine into loan management platform
- Dot Dot achieving financial targets by FY21

U Holdings Limited (UHL)

UHL is a provider of online current account services

- Acquired in June 2019, giving Shelby Finance a technology and e-money banking platform
- Customer base of 16,000 engaged in online current account product
- Currently undergoing a full integration into the Group structure
- Re-engineering of the brand in line with the targeted customer profile
- Plans to introduce range of credit products

Morses Club has a risk-based approach to acquisitions and will consider any that are earnings accretive or strategically beneficial

Summary and Outlook

Summary and Outlook

Our vision is to continue to grow as a leading provider of non-standard finance in the UK

Delivery

Strong performance for the half year with dividend maintained

Continued revenue growth across the business

Foundation for growth

Focused on integrating our acquisitions and ensuring they fit the Morses Club DNA

Developing a product offering to address demand in the wider non-standard market

Opportunity

Outlook for FY20 remains positive, with strong HCC performance

Opportunities for growth through product diversification and digital strategy

Appendices

Profit reconciliation

£'000	HCC	Digital	Group
Prior Year Adjusted PBT	10.9	(0.4)	10.5
Amortisation of Intangibles	(0.5)	0.0	(0.5)
Exceptional items	-	-	0.0
Prior Year Reported PBT	10.4	(0.4)	10.0
Benefit of 27-week period	1.2	-	1.2
Reduction in TB subsidies	0.9	-	0.9
Trading Improvement	0.2	-	0.2
Acquisition Contribution	0.4	(3.1)	(2.7)
Current Year Adjusted PBT	13.1	(3.5)	9.6
Amortisation of Intangibles	-	-	0.0
Add back Written Off Interest	-	(1.2)	(1.2)
Exceptional / Restructuring Costs	(0.8)	(0.9)	(1.7)
Current Year Reported	12.3	(5.6)	6.7